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Agenda Item 4b

March 16, 2011

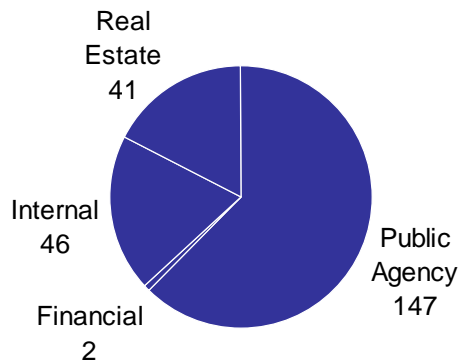
TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Office of Audit Services Quarterly Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

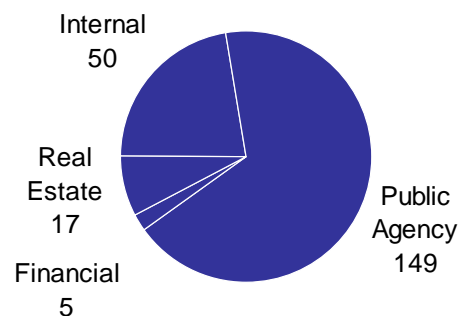
In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of December 31, 2010.

1. Status of findings

**Figure 1 - Current Fiscal Year
Open Findings**



**Figure 2 - Prior Fiscal Years
Open Findings (2002-2010)**



The charts above provide a summary of the types of open findings. Attachment 1A provides a dashboard status of the audit findings. Detail on all findings is available on file in the Office of Audit Services, upon request, and has been distributed to all appropriate divisions.

2. Acceptance of risk

In accordance with the Audit Resolution Policy and Procedures, senior management may decide to assume the risk of not correcting the reported condition because of cost of other considerations. Management concurred with the audit observation when the audit report was originally issued and management has reassessed the current condition. Management has decided to formally accept the risk associated with six observations. See Attachment 2A for a summary of the issues.

3. Corrective action plans

Also, in accordance with the Audit Resolution Policy and Procedures, corrective action plans are required for findings that remain open more than one year or 90 days for significant findings. Several corrective action plans have passed the divisions' target completion date for resolution and other corrective action plans are overdue.

4. Finding trends

Current Year Second Quarter Findings

- There were 67 public agency findings issued during this second quarter and 20 findings, or 30 percent, have been addressed and are complete. Attachment 3A provides significant public agency review findings for this first quarter.
- There were 19 real estate audit findings issued during this second quarter. Attachment 3B provides significant real estate audit findings for this first quarter.
- There were 26 internal audit findings issued during this second quarter. Attachment 4A provides an executive summary of internal audits completed this first quarter.

HIPAA-Related Findings

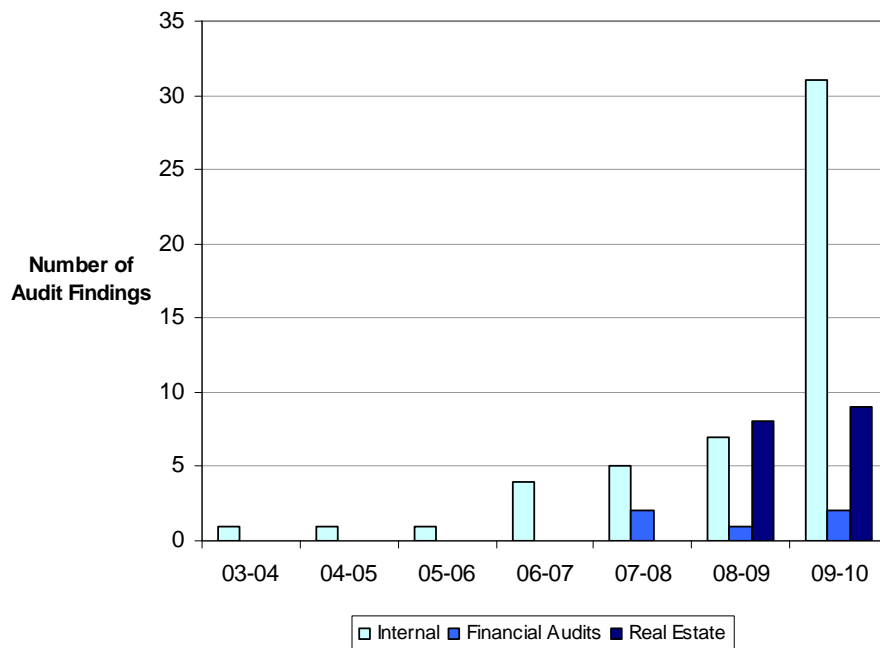
At the request of the Finance Committee, we have included the status of the Health Insurance Portability and Accountability Act (HIPAA) findings. During this fourth quarter, management accepted the risk of four findings and one finding remains in progress. The detailed status is provided in Attachment 5A of this agenda item.

Financial Statement Audit Findings

Macias Gini & O'Connell, LLP reported on their observations in connection with the annual independent audit of the Systems' financial statements at the February 2011 Finance Committee meeting. The status of the two current year findings is in Attachment 6A and the status of prior year findings is in Attachment 6B of this agenda item. We will report the status of all financial statement audit findings quarterly until fully resolved.

The following graph provides an aging summary of the prior years' audit findings.

Figure 3 – Aging of Prior Years Open Findings



Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continues to work with management to resolve all outstanding issues.

Contracting Public Agency Reviews

The major public agency review issued this quarter was the City of Bell. The Office of Audit Services found numerous significant issues with the City's payroll and membership reporting. Significant issues from this audit and the six other reviews completed during this quarter are on Attachment 3A.

Internal Audits – common issues and examples

- *Processes* (absent, incomplete, or outdated processes or implementation issues). Inadequate processes increase the risk of non-compliance with laws, regulations, and policy. Inadequate processes could also hinder achievement of business objectives.
- *Documentation* (absent, incomplete, or outdated documentation supporting transactions, reviews or contracts). Inadequate documentation increases the risk of ineffective program oversight and could also hinder succession planning efforts.

Real Estate Compliance Review – common issues and examples

- *Fees and unallowable costs* (charging for fees and costs not specified, correctly calculated, or allowable by agreement)
- *Vendor contracting* (improper bidding or unsubstantiated bids for work contracted, no executed contracts on file, or lack of required clauses)
- *Accounting and reporting* (weaknesses in accounting systems, inadequate reconciliations, untimely submission of reports)

5. Status of projects

Table A – Summary of Activities

Type of Project	2009-10 Audit Plan	Projects In Progress	Projects Complete
Internal Audit, Consulting and Follow-Up (Attachment 7A)	53	27 ^A	12 ^A
Public Agency Reviews (Attachment 7B)	79	51 ^A	30 ^A
Financial Statement and Real Estate Contract Audits (Attachment 7C)	n/a	9 ^A	3 ^A

^A - Includes audits started in prior fiscal year as shown in the Attachments

Table A above provides a summary of the projects by categories.

- Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audit also includes audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services.
- Field reviews include compliance reviews of employers belonging to the System.
- Financial statement and real estate audits are contract audits performed by external auditors.

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

VI. RESULTS/COSTS:

There is no additional cost for this specific agenda item.

MARGARET JUNKER, Chief
Office of Audit Services

PETER H. MIXON
General Counsel

Attachments